



Independent Auditors' Report

And Financial Statements

For The Year Ended

June 30, 2019

City of Russell Springs, Kentucky  
Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	14
Statement of Net Position - Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	16
Statement of Cash Flows - Proprietary Funds	17
Notes to the Basic Financial Statements	18-39
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability	40
Schedule of the City's Pension Contributions	41

City of Russell Springs, Kentucky  
Table of Contents

Schedule of OPEB Contributions	42
Schedule of Changes in the OPEB Liability	43
Supplemental Information:	
Schedule of Water and Sewer Services	44
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45-46
Schedule of Findings and Responses	47-51

## Independent Auditors' Report

To the Members of the City Council  
City of Russell Springs, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Russell Springs, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund, of the City of Russell Springs, Kentucky, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, pension schedules on pages 40 through 41 and OPEB schedules on pages 42 through 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Water and Sewer Services on page 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Water and Sewer Services is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Water and Sewer Services is fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2020 on our consideration of the City of Russell Springs, Kentucky's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Russell Springs, Kentucky's internal control over financial reporting and compliance.

***Baldwin CPAs, PLLC***

Baldwin CPAs, PLLC

February 21, 2020

City of Russell Springs, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2019

As management of the City of Russell Springs, we offer readers of the City of Russell Springs' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

### **FINANCIAL HIGHLIGHTS**

- Retirement rates for fiscal year FY 18-19 were 21.48% for non-hazardous and 35.34% for hazardous, a 12% increase from the previous fiscal year.
- General Fund revenues totaled to approximately \$2.7 million for FY 2019 which represented a 2% increase from FY 2018.
- The City made several capital purchases during the year including vehicles for police and ABC, street improvements, real property and police and fire equipment. Water and Sewer made several capital purchases including new water meters and sewer pumps.
- Property tax rate for 2019 remained at .170 per \$100 of assessed property value.
- Cash available for use to pay the City's obligations as of June 30, 2019 is approximately \$1.2 million which was a decrease compared to the prior year of \$1.4 million.
- The City's total General Fund revenues were over budget by approximately \$50,000 and expenses were over budget by approximately \$321,000, primarily related to capital purchases.
- The City's proportionate share of the CERS net pension and OPEB liability increased approximately \$300,000 from the previous fiscal year, from approximately \$4,700,000 to \$5,000,000.
- In FY 2019, City made all scheduled debt service payments totally approximately of \$156,000 and no new debt was incurred.

**OVERVIEW OF FINANCIAL STATEMENTS** - This discussion and analysis is intended to serve as an introduction to the City of Russell Springs' basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS** - The government-wide financial statements are designed to provide readers with a broad overview of the City of Russell Springs' finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the City of Russell Springs' assets and deferred outflows and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Russell Springs is improving or deteriorating. The statement of activities presents information showing how the City of Russell Springs' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The government-wide financial statements outline functions of the City of Russell Springs that are principally supported by various taxes, licenses and permits. The governmental activities of the City include fire,

City of Russell Springs, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2019

safety, highways, streets, sanitation, parks and miscellaneous services. Property taxes, licenses and permits also support fixed assets and related debt. The government-wide financial statements can be found on pages 8-9 of this report.

**FUND FINANCIAL STATEMENTS** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Russell Springs uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary funds. The two proprietary funds are the water and sewer fund and the senior citizens fund. All other activities of the City are included in the governmental funds. The basic fund financial statements can be found on pages 10-17 of this report.

**NOTES TO THE FINANCIAL STATEMENTS** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-40 of this report. The City of Russell Springs' financial position is the product of several financial transactions including the net results of the activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, the depreciation of capital assets and changes in the net pension liability.

**THE CITY AS A WHOLE**

**Table 1  
Net Position (in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 1,826	\$ 2,010	\$ 1,296	\$ 1,241	\$ 3,122	\$ 3,251
Capital assets	1,368	1,390	9,066	9,410	10,434	10,800
Total assets	<u>3,194</u>	<u>3,400</u>	<u>10,362</u>	<u>10,651</u>	<u>13,556</u>	<u>14,051</u>
Deferred outflows of resources	1,245	1,379	345	401	1,590	1,780
Current liabilities	130	108	570	651	700	759
Non-current liabilities	3,879	3,620	3,366	3,455	7,245	7,075
Total liabilities	<u>4,009</u>	<u>3,728</u>	<u>3,936</u>	<u>4,106</u>	<u>7,945</u>	<u>7,834</u>
Deferred inflows of resources	346	242	119	101	465	343
Net position:						
Invested in capital assets						
net of debt	1,264	1,258	6,794	7,012	8,058	8,270
Restricted	-	-	385	391	385	391
Unrestricted	(1,180)	(449)	(528)	(558)	(1,708)	(1,007)
Total net position	<u>\$ 84</u>	<u>\$ 809</u>	<u>\$ 6,651</u>	<u>\$ 6,845</u>	<u>\$ 6,735</u>	<u>\$ 7,654</u>

City of Russell Springs, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2019

**Table 2**  
**Changes in Net Position (in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 44	\$ 26	\$ 3,428	\$ 3,263	\$ 3,472	\$ 3,289
Operating grants and contributions	145	168	-	-	145	168
Capital grants and contributions	-	42	-	-	-	42
General revenues:						
Taxes	1,395	1,362	-	-	1,395	1,362
Licenses and permits	1,068	1,026	-	-	1,068	1,026
Fines and forfeits	4	4	-	-	4	4
Intergovernmental programs	68	42	77	152	145	194
Other revenue	45	84	86	79	131	163
Loss on sale of fixed asset	(14)	(36)	-	-	(14)	(36)
Total Revenues	<u>2,755</u>	<u>2,718</u>	<u>3,591</u>	<u>3,494</u>	<u>6,346</u>	<u>6,212</u>
Program expenses:						
General government	988	959	-	-	988	959
Police and ABC	1,601	1,383	-	-	1,601	1,383
Fire	109	124	-	-	109	124
Highway and streets	135	446	-	-	135	446
Parks	457	233	-	-	457	233
Cemetery	16	2	-	-	16	2
Interest on long-term debt	4	5	86	84	90	89
Unallocated depreciation	174	151	-	-	174	151
Water and sewer	-	-	3,650	3,509	3,650	3,509
Senior citizens	-	-	45	45	45	45
Total expenses	<u>3,484</u>	<u>3,303</u>	<u>3,781</u>	<u>3,638</u>	<u>7,265</u>	<u>6,941</u>
Excess (deficiency) before transfers	<u>(729)</u>	<u>(585)</u>	<u>(190)</u>	<u>(144)</u>	<u>(919)</u>	<u>(729)</u>
Transfers	4	(70)	(4)	70	-	-
Increase (decrease) in net position	<u>\$ (725)</u>	<u>\$ (655)</u>	<u>\$ (194)</u>	<u>\$ (74)</u>	<u>\$ (919)</u>	<u>\$ (729)</u>

City of Russell Springs, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2019

**CAPITAL ASSETS**

In FY 2019, the City purchased several new vehicles for police and ABC operations. The water and sewer fund purchased water meters, pumps and a dump truck.

**Table 3  
Capital Assets (in Thousands)**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Autos & Trucks	\$ 1,192	\$ 1,061	\$ 330	\$ 298	\$ 1,522	\$ 1,359
Buildings	1,373	1,373	1,106	1,106	2,479	2,479
Fixtures & Equipment	386	366	734	730	1,120	1,096
Land and Improvements	480	480	286	286	766	766
Construction in progress	35	35	-	-	35	35
Water and Sewer Systems		-	16,608	16,485	16,608	16,485
<b>Totals</b>	<b>\$ 3,466</b>	<b>\$ 3,315</b>	<b>\$ 19,064</b>	<b>\$ 18,905</b>	<b>\$ 22,530</b>	<b>\$ 22,220</b>

**DEBT**

Rural Development requires interest payments by April 1 and interest and principal payments by October 1, of each year. KIA loan require payments in June and December. The fire truck payment is due each October.

**Table 4  
Outstanding Debt at Year-End (in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Notes Payable	\$ 104	\$ 133	\$ 527	\$ 564	\$ 631	\$ 697
Revenue Bonds	-	-	1,745	1,835	1,745	1,835
<b>Totals</b>	<b>\$ 104</b>	<b>\$ 133</b>	<b>\$ 2,272</b>	<b>\$ 2,399</b>	<b>\$ 2,376</b>	<b>\$ 2,532</b>

City of Russell Springs, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2019

**COMMENTS ON BUDGET COMPARISONS**

- Raises were given to all employees
- Water and Sewer Revenue along with Penalties and Taps increased from FY 18-19

**THE CITY'S FUNDS**

More utility customers continue to use credit cards to pay their utility bill. The Community Center remains to be a wonderful rental asset for the City.

**Contacting the City of Russell Springs**

This financial report is designed to provide citizens, creditors and other users with an overview of the City of Russell Springs, Kentucky's finances, fiscal practices and responsibility. If you have questions or need additional information please contact the City Clerk @ P.O. Box 247, Russell Springs, KY 42642-0247.

City of Russell Springs, Kentucky  
Statement of Net Position  
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows			
Current Assets			
Cash and cash equivalents	\$ 1,256,086	\$ 398,189	\$ 1,654,275
Investments	4,033	-	4,033
Receivables:			
Customers	-	455,203	455,203
Taxes	442,045	-	442,045
Unbilled	-	167,481	167,481
Allowance	-	(47,000)	(47,000)
Other	1,504	-	1,504
Inventory	-	40,394	40,394
Internal balances	103,503	(103,503)	-
Total Current Assets	<u>1,807,171</u>	<u>910,764</u>	<u>2,717,935</u>
Restricted assets:			
Cash	<u>18,647</u>	<u>385,206</u>	<u>403,853</u>
Noncurrent Assets			
Capital assets	3,466,457	19,049,339	22,515,796
Less: accumulated depreciation	<u>(2,098,812)</u>	<u>(9,983,731)</u>	<u>(12,082,543)</u>
Net capital assets	<u>1,367,645</u>	<u>9,065,608</u>	<u>10,433,253</u>
Total Assets	<u>3,193,463</u>	<u>10,361,578</u>	<u>13,555,041</u>
Deferred Outflows of Resources	<u>1,245,256</u>	<u>344,861</u>	<u>1,590,117</u>
Liabilities, Deferred Inflows and Net Position			
Liabilities			
Current Liabilities			
Revenue bonds payable	-	94,100	94,100
Notes payable	15,925	37,780	53,705
Accounts payable	43,156	153,544	196,700
Accrued payroll and payroll taxes	44,208	7,522	51,730
Customer deposits payable	-	245,647	245,647
Accrued vacation	26,588	11,110	37,698
Accrued interest payable	-	20,672	20,672
Total Current Liabilities	<u>129,877</u>	<u>570,375</u>	<u>700,252</u>
Non-current Liabilities			
Revenue bonds payable	-	1,650,498	1,650,498
Notes payable	87,574	489,051	576,625
Net OPEB liability	881,961	255,923	1,137,884
Net pension liability	<u>2,909,259</u>	<u>970,856</u>	<u>3,880,115</u>
Total non-current liabilities	<u>3,878,794</u>	<u>3,366,328</u>	<u>7,245,122</u>
Total Liabilities	<u>4,008,671</u>	<u>3,936,703</u>	<u>7,945,374</u>
Deferred Inflows of Resources	<u>345,688</u>	<u>118,581</u>	<u>464,269</u>
Net Position			
Invested in capital assets, net of related debt	1,264,146	6,794,179	8,058,325
Restricted for:			
Debt service	-	190,287	190,287
Other purposes	-	194,919	194,919
Unrestricted	<u>(1,179,786)</u>	<u>(528,230)</u>	<u>(1,708,016)</u>
Total Net Position	<u>\$ 84,360</u>	<u>\$ 6,651,155</u>	<u>\$ 6,735,515</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky  
Statement of Activities  
For the Year Ended June 30, 2019

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
General government	\$ 987,582	\$ 9,410	\$ 27,987	\$ -	\$ (950,185)	\$ -	\$ (950,185)
Police and ABC	1,601,103	-	52,943	-	(1,548,160)	-	(1,548,160)
Fire	109,285	-	-	-	(109,285)	-	(109,285)
Highways and streets	135,534	-	48,399	-	(87,135)	-	(87,135)
Culture and Recreation	457,073	34,604	-	-	(422,469)	-	(422,469)
Cemetery	16,143	-	15,254	-	(889)	-	(889)
Interest on long-term debt	4,198	-	-	-	(4,198)	-	(4,198)
Unallocated depreciation	174,401	-	-	-	(174,401)	-	(174,401)
Total Governmental Activities	<u>3,485,319</u>	<u>44,014</u>	<u>144,583</u>	<u>-</u>	<u>(3,296,722)</u>	<u>-</u>	<u>(3,296,722)</u>
Business-Type Activities							
Water and Sewer	3,736,100	3,408,740	-	-	-	(327,360)	(327,360)
Senior Citizens	45,235	19,350	-	-	-	(25,885)	(25,885)
Total Business-Type Activities	<u>3,781,335</u>	<u>3,428,090</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(353,245)</u>	<u>(353,245)</u>
Total City	<u>\$ 7,266,654</u>	<u>\$ 3,472,104</u>	<u>\$ 144,583</u>	<u>\$ -</u>	<u>(3,296,722)</u>	<u>(353,245)</u>	<u>(3,649,967)</u>
			General Revenues:				
			Taxes		1,395,321	-	1,395,321
			Licenses and permits		1,068,111	-	1,068,111
			Fines		4,313	-	4,313
			Intergovernmental programs		68,284	77,355	145,639
			Interest revenue		-	878	878
			Loss from sale of asset		(13,667)	-	(13,667)
			Other revenues		45,463	84,900	130,363
			Total General Revenues		<u>2,567,825</u>	<u>163,133</u>	<u>2,730,958</u>
			Transfers		3,750	(3,750)	-
			Change in Net Position		(725,147)	(193,862)	(919,009)
			Net Position - Beginning		809,507	6,845,017	7,654,524
			Net Position - Ending		<u>\$ 84,360</u>	<u>\$ 6,651,155</u>	<u>\$ 6,735,515</u>

City of Russell Springs, Kentucky  
Balance Sheet - Governmental Funds  
June 30, 2019

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,198,461	33,074	24,551	\$ 1,256,086
Restricted cash	18,647	-	-	18,647
Investments	4,033	-	-	4,033
Receivables				
Taxes receivable	442,045	-	-	442,045
Other receivables	1,504	-	-	1,504
Due from other funds	103,503	-	-	103,503
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b><u>\$ 1,768,193</u></b>	<b><u>\$ 33,074</u></b>	<b><u>\$ 24,551</u></b>	<b><u>\$ 1,825,818</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 43,156	\$ -	\$ -	\$ 43,156
Accrued vacation	26,588	-	-	26,588
Payroll taxes payable	8,093	-	-	8,093
Accrued payroll	36,115	-	-	36,115
<b>Total Liabilities</b>	<b><u>113,952</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>113,952</u></b>
<b>Fund Balances</b>				
Restricted	-	33,074	24,551	57,625
Unassigned	1,654,241	-	-	1,654,241
<b>Total Fund Balances</b>	<b><u>1,654,241</u></b>	<b><u>33,074</u></b>	<b><u>24,551</u></b>	<b><u>1,711,866</u></b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 1,768,193</u></b>	<b><u>\$ 33,074</u></b>	<b><u>\$ 24,551</u></b>	<b><u>\$ 1,825,818</u></b>

City of Russell Springs, Kentucky  
 Reconciliation of the Balance Sheet - Governmental Funds  
 to the Statement of Net Position  
 June 30, 2019

Total Fund Balances Per Fund Financial Statements		\$1,711,866
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		1,367,645
<p>Deferred outflows and inflows used in governmental activities are not financial resources and therefore are not reported in the governmental funds:</p>		
Deferred outflows related to pension and OPEB		1,245,256
<p>Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position:</p>		
Notes payable	(103,499)	
Deferred inflows related to pension and OPEB	(345,688)	
Net OPEB liability	(881,961)	
Net pension liability	(2,909,259)	
	(4,240,407)	(4,240,407)
Net Position of Governmental Activities		\$ 84,360

City of Russell Springs, Kentucky  
Statement of Revenues, Expenditures and Changes in  
Fund Balances - Governmental Funds  
June 30, 2019

	General Fund	Municipal Road Aid Fund	Special Revenue Fund	Total Governmental Funds
Revenue				
Taxes	\$ 1,395,321	\$ -	\$ -	\$ 1,395,321
Licenses and permits	1,068,111	-	-	1,068,111
Fines and forfeitures	4,313	-	-	4,313
Intergovernmental programs	153,911	48,399	10,557	212,867
Miscellaneous income	89,478	-	-	89,478
Total Revenue	<u>2,711,134</u>	<u>48,399</u>	<u>10,557</u>	<u>2,770,090</u>
Expenditures				
General government	908,059	-	-	908,059
Police and ABC	1,203,603	-	2,674	1,206,277
Fire	109,285	-	-	109,285
Highways and streets	57,731	77,803	-	135,534
Culture and recreation	416,052	-	-	416,052
Debt service	33,363	-	-	33,363
Capital outlay	206,134	-	-	206,134
Cemetery	16,143	-	-	16,143
Total Expenditures	<u>2,950,370</u>	<u>77,803</u>	<u>2,674</u>	<u>3,030,847</u>
Excess of Revenues Over (Under) expenditures	<u>(239,236)</u>	<u>(29,404)</u>	<u>7,883</u>	<u>(260,757)</u>
Other Financing Sources				
Transfer In	3,750	-	-	3,750
Proceeds from sale of asset	38,000	-	-	38,000
Total Other Financing Sources	<u>41,750</u>	<u>-</u>	<u>-</u>	<u>41,750</u>
Net Change in Fund Balance	(197,486)	(29,404)	7,883	(219,007)
Fund Balances July 1, 2018	<u>1,851,727</u>	<u>62,478</u>	<u>16,668</u>	<u>1,930,873</u>
Fund Balances June 30, 2019	<u>\$ 1,654,241</u>	<u>\$ 33,074</u>	<u>\$ 24,551</u>	<u>\$ 1,711,866</u>

City of Russell Springs, Kentucky  
 Reconciliation of the Statement of Revenues, Expenditures, and  
 Changes in Fund Balances of Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2019

Net Change in Total Fund Balances Per Fund Financial Statements \$ (219,007)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset expenditures capitalized	203,525	
Depreciation expense	(174,401)	
Cost of property sold	<u>(51,667)</u>	(22,543)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount related to:

Net OPEB liability	75,179	
Net pension liability	<u>(587,941)</u>	(512,762)

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

29,165

Change in Net Position of Governmental Activities \$ (725,147)

City of Russell Springs, Kentucky  
Statement of Revenues, Expenditures and Changes in  
Fund Balances - Budget and Actual - General Fund  
June 30, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Taxes	\$ 1,568,714	\$ 1,568,714	\$ 1,395,321	\$ (173,393)
Licenses and permits	928,555	928,555	1,068,111	139,556
Fines and forfeits	5,000	5,000	4,313	(687)
Intergovernmental programs	59,433	59,433	153,911	94,478
Miscellaneous income	100,100	100,100	89,478	(10,622)
Total Revenue	<u>2,661,802</u>	<u>2,661,802</u>	<u>2,711,134</u>	<u>49,332</u>
Expenditures				
General government	690,976	690,976	908,059	(217,083)
Police and ABC	1,257,500	1,257,500	1,203,603	53,897
Fire	106,000	106,000	109,285	(3,285)
Highways and streets	89,500	89,500	57,731	31,769
Parks	459,850	459,850	416,052	43,798
Cemetery	-	-	16,143	(16,143)
Capital outlay	-	-	206,134	(206,134)
Debt service	25,000	25,000	33,363	(8,363)
Total Expenditures	<u>2,628,826</u>	<u>2,628,826</u>	<u>2,950,370</u>	<u>(321,544)</u>
Excess of Revenues Over (Under) expenditures	<u>32,976</u>	<u>32,976</u>	<u>(239,236)</u>	<u>(272,212)</u>
Other Financing Sources				
Transfer in	-	-	3,750	3,750
Proceeds from sale of asset	-	-	38,000	38,000
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>41,750</u>	<u>38,000</u>
Net Change in Fund Balance	32,976	32,976	(197,486)	(234,212)
Fund Balance July 1, 2018	<u>1,851,727</u>	<u>1,851,727</u>	<u>1,851,727</u>	<u>-</u>
Fund Balance June 30, 2019	<u>\$ 1,884,703</u>	<u>\$ 1,884,703</u>	<u>\$ 1,654,241</u>	<u>\$ (234,212)</u>

City of Russell Springs, Kentucky  
Statement of Net Position - Proprietary Funds  
June 30, 2019

	<u>Water and Sewer Fund</u>	<u>Senior Citizens Fund</u>	<u>Total Proprietary Funds</u>
<b>Assets and Deferred Outflows</b>			
Current Assets			
Cash and cash equivalents	\$ 309,141	\$ 89,048	\$ 398,189
Receivables:			
Customers	455,203	-	455,203
Unbilled	167,481	-	167,481
Allowance	(47,000)	-	(47,000)
Inventory	40,394	-	40,394
Restricted Assets:			
Cash	385,206	-	385,206
Total Current Assets	1,310,425	89,048	1,399,473
Noncurrent Assets			
Capital assets, net of depreciation	8,213,954	851,654	9,065,608
Total Noncurrent Assets	8,213,954	851,654	9,065,608
Total Assets	9,524,379	940,702	10,465,081
Deferred Outflows of Resources	344,861	-	344,861
<b>Liabilities and Net Pension</b>			
Liabilities			
Current Liabilities			
Revenue bonds payable	94,100	-	94,100
Notes payable	37,780	-	37,780
Accounts payable	153,544	-	153,544
Accrued payroll and payroll taxes	7,522	-	7,522
Customer deposits payable	245,647	-	245,647
Accrued vacation	11,110	-	11,110
Due to other funds	87,912	15,591	103,503
Accrued interest payable	20,672	-	20,672
Total Current Liabilities	658,287	15,591	673,878
Noncurrent Liabilities			
Revenue bonds payable	1,650,498	-	1,650,498
Notes payable	489,051	-	489,051
Net OPEB liability	255,923	-	255,923
Net pension liability	970,856	-	970,856
Total Noncurrent Liabilities	3,366,328	-	3,366,328
Total Liabilities	4,024,615	15,591	4,040,206
Deferred Inflows of Resources	118,581	-	118,581
Net Position			
Invested in capital assets, net of related debt	5,942,525	851,654	6,794,179
Restricted for:			
Debt service	190,287	-	190,287
Other purposes	194,919	-	194,919
Unrestricted	(601,687)	73,457	(528,230)
Total Net Position	\$ 5,726,044	\$ 925,111	\$ 6,651,155

See accompanying notes to financial statements.

City of Russell Springs, Kentucky  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2019

	Water & Sewer Fund	Senior Citizens Fund	Total Proprietary Funds
Operating Revenues			
Charges for services	\$ 3,409,618	\$ 19,350	\$ 3,428,968
Total Operating Revenues	<u>3,409,618</u>	<u>19,350</u>	<u>3,428,968</u>
Operating Expenses			
Salaries	375,970	-	375,970
Payroll taxes	27,411	-	27,411
Motor fuels	41,569	-	41,569
Depreciation and amortization	450,622	38,254	488,876
Maintenance	59,557	6,981	66,538
Utilities	102,815	-	102,815
Chemicals	4,311	-	4,311
Employee benefits	278,202	-	278,202
Insurance	62,456	-	62,456
Supplies	252,579	-	252,579
Office supplies	2,955	-	2,955
Professional fees	28,609	-	28,609
Advertising and printing	282	-	282
Lab analysis	9,037	-	9,037
Water purchases	905,688	-	905,688
Sanitation	889,071	-	889,071
Dues and subscriptions	692	-	692
Uniforms	12,334	-	12,334
Miscellaneous	12,469	-	12,469
Sales tax	45,400	-	45,400
Utility tax	61,157	-	61,157
Communications and postage	27,123	-	27,123
Total Operating Expenses	<u>3,650,309</u>	<u>45,235</u>	<u>3,695,544</u>
Operating Income (Loss)	<u>(240,691)</u>	<u>(25,885)</u>	<u>(266,576)</u>
Nonoperating Revenues (Expenses)			
Transfer In (Out)	-	(3,750)	(3,750)
Intergovernmental	77,355	-	77,355
Interest earned	878	-	878
Interest expense	(85,791)	-	(85,791)
Miscellaneous revenue	84,022	-	84,022
Total Nonoperating Revenues (Expenses)	<u>76,464</u>	<u>(3,750)</u>	<u>72,714</u>
Change in Net Position	(164,227)	(29,635)	(193,862)
Net Position, July 1, 2018	<u>5,890,271</u>	<u>954,746</u>	<u>6,845,017</u>
Net Position, June 30, 2019	<u>\$ 5,726,044</u>	<u>\$ 925,111</u>	<u>\$ 6,651,155</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky  
Statement of Cash Flows -  
Proprietary Funds  
For the Year Ended June 30, 2019

	Water & Sewer Fund	Senior Citizens Fund	Total Proprietary Funds
<b>Cash Flows From Operating Activities</b>			
Cash receipts from customers	\$ 3,402,047	\$ 19,350	\$ 3,421,397
Cash payments to suppliers for goods or services	(2,596,497)	(6,981)	(2,603,478)
Cash payments to employees for services	(562,646)	-	(562,646)
<b>Net Cash Provided by Operating Activities</b>	<u>242,904</u>	<u>12,369</u>	<u>255,273</u>
<b>Cash Flows From Capital Financing Activities</b>			
Other cash receipts	84,022	-	84,022
Cash receipts from grants	77,355	-	77,355
Cash paid for interest	(85,791)	-	(85,791)
Interfund activity	-	(3,750)	(3,750)
Payments of principal on long-term debt	(127,167)	-	(127,167)
<b>Net Cash Provided by Capital Financing Activities</b>	<u>(51,581)</u>	<u>(3,750)</u>	<u>(55,331)</u>
<b>Cash Flows From Investing Activities</b>			
Purchase of capital assets	(138,780)	(4,375)	(143,155)
<b>Net Cash Used by Investing Activities</b>	<u>(138,780)</u>	<u>(4,375)</u>	<u>(143,155)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	52,543	4,244	56,787
<b>Cash and Cash Equivalents July 1, 2018</b>	<u>641,804</u>	<u>84,804</u>	<u>726,608</u>
<b>Cash and Cash Equivalents June 30, 2019</b>	<u>\$ 694,347</u>	<u>\$ 89,048</u>	<u>\$ 783,395</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$ (240,691)	\$ (25,885)	\$ (266,576)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	450,622	38,254	488,876
(Increase) Decrease in:			
Accounts receivable	(7,571)	-	(7,571)
Inventory	9,379	-	9,379
Deferred outflows of resources	55,810	-	55,810
Increase (Decrease) in:			
Accounts payable	(102,571)	-	(102,571)
Customer deposits payable	15,918	-	15,918
Accrued payroll and payroll taxes	1,249	-	1,249
Accrued vacation	933	-	933
Accrued interest	(1,119)	-	(1,119)
Net pension liability	65,543	-	65,543
Net OPEB liability	(21,956)	-	(21,956)
Deferred inflows of resources	17,358	-	17,358
<b>Cash Provided by Operating Activities</b>	<u>\$ 242,904</u>	<u>\$ 12,369</u>	<u>\$ 255,273</u>
<b>Cash Reconciliation:</b>			
Cash and cash equivalents	\$ 309,141	\$ 89,048	\$ 398,189
Restricted cash	385,206	-	385,206
<b>Cash and Cash Equivalents June 30, 2019</b>	<u>\$ 694,347</u>	<u>\$ 89,048</u>	<u>\$ 783,395</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky  
Notes to Financial Statements  
June 30, 2019

Note 1 – Summary of Significant Accounting Policies

The City of Russell Springs (“City”) operates under a City Council form of government and has budgetary authority over the following functional areas: public safety, public service, water and sewer, and general administration, and for financial reporting purposes, all funds and account groups that are controlled by or dependent on the City, as determined on the basis of budget adoption, management oversight responsibility, and taxing authority.

A review of other agencies was performed in order to determine if they met the criteria as discussed above for inclusion in the City's financial statements. City management determined that no other agencies should be in the City's financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recognized only when payment is due.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

Property taxes, licenses, insurance premium taxes, and occupational taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

1. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
2. The Municipal Road Aid and Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for a specified purpose.

The City reports the following major proprietary funds:

1. The Water and Sewer Fund is used to account for water, sewer, and sanitation activities.
2. The Senior Citizens Fund is used to account for activity related to the rental of land for use as the site for a senior citizens building.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Budget Basis of Accounting

The budget basis of accounting is consistent with generally accepted accounting principles. The type of budget is an appropriated budget and said budget is adopted by ordinance by the City Council. The budget is adopted on an annual basis. The budget presented for the General Fund was amended during the year and adopted by ordinance by the City Council.

The general fund budget is prepared on a basis consistent with generally accepted accounting principles. For the year ended June 30, 2019, expenditures exceeded appropriations in the General Fund by \$321,544 primarily related to capital outlay.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Investments

Investments consist of a certificate of deposit with an original maturity date of greater than 90 days.

Inventory

Inventory consists of water and sewer maintenance and repair parts and supplies. Inventory amounts are stated at cost.

Accounts Receivable - Enterprise Fund

The Water and Sewer accounts receivable are for services to customers. If a customer fails to pay within 25 days after the prior month's bill, their water service is terminated and their deposit is applied to the unpaid bill. Any unpaid balance after applying the deposit is fully reserved. Unbilled receivables represent the water and sewer usage from the end of the last billing cycle in June through the last day of the fiscal year. Typically, the billing cycle is cut off on the 15<sup>th</sup> of the month and the usage from then until the last day of the month is not billed until the following month.

Allowance for Doubtful Accounts

The City has provided for an allowance for doubtful accounts for the year ended June 30, 2019 based upon the City's estimate of the collectability of accounts receivable.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not capitalized. All reported capital assets and improvements are depreciated. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are 5-40 years for infrastructure; 25-40 years for buildings; 10-40 years for improvements and 5-20 years for vehicles and equipment.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate element, deferred outflows of resources, represents a consumption of resources of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

Deferred Outflows and Inflows of Resources (Continued)

The City has four items that qualify for reporting in this category. These include the City's pension contributions made subsequent to the measurement date, differences between expected and actual experience, net difference between projected and actual investment earnings on pension plan investments and changes in assumptions.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category which is related to change in proportion and differences between employer contributions and proportionate share of contributions. Refer to the Pension Liability, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension in Note 8, Retirement Plan and the Post-Employment Benefits Other than Pensions (OPEB) in Note 9.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources.

However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Compensated Absences

City employees are allowed to accumulate sick leave and vacation time based on the City's approved policies. Regular full-time employees (40 hours per week) received 8 hours of sick time per month. Sick leave may be accrued up to a maximum of 480 hours. Vacation leave shall be taken during the 12-month period immediately following the date it is credited and cannot be carried forward into the next year unless approved in advance by the Mayor.

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

Postemployment Benefits Other Than Pensions (OPEB):

For purposes of measuring the City's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms; the liability was measured at June 30, 2018.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 – Cash and Investments

The City maintains their cash and investment accounts with local banks. Cash consists of direct deposit accounts and investments consist of a certificate of deposit. At June 30, 2019 the carrying amount of unrestricted cash and investments was \$1,844,935 and the bank balance was \$2,253,963. Additional cash information is presented in Notes 4 and 5.

Note 3 - Restricted Cash

The City has restricted cash to satisfy bond issue requirements. The City also has restricted cash accounts related to their use for bond payments and capital expenditures. These same cash accounts are considered a restriction of net assets.

Note 4 – Kentucky Revised Statute

As of June 30, 2019, \$2,079,638 of the City's cash balance at the bank was covered by federal depository, depository bond insurance and securities pledged as collateral on behalf of the City. In accordance with Kentucky Revised Statute (KRS) 66.480, the deposits are to be insured by the federal depository insurance or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), it shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS.66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 5 - Deposits

*Custodial Credit Risk-Deposits:* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2019, \$1,676,888 of the City's bank balance of \$2,079,638 was exposed to custodial credit risk as described below. \$402,750 of the City's deposits was covered by Federal depository insurance at June 30, 2019.

Uninsured and uncollateralized	\$ -
Uninsured and collateral held by pledging bank	1,676,888
Uninsured and collateral held by pledging bank's trust department not in the City's name	-
Total	<u><u>\$ 1,676,888</u></u>

Note 6 – Revenue Bonds Payable

At June 30, 2019, the Water and Sewer Fund had the following bonds payable outstanding:

<u>Description</u>	<u>Interest Rate</u>	<u>Series</u>	<u>Amount</u>
Revenue Bonds	5.00%	1981	47,999
Revenue Bonds	5.00%	1986	102,000
Revenue Bonds	4.50%	1996 A	386,000
Revenue Bonds	4.50%	1996 B	871,000
Revenue Bonds	4.50%	2001	238,600
Revenue Bonds	4.00%	2004	<u>99,000</u>
Total payable at par			1,744,599
Less: current portion payable from restricted assets			<u>94,100</u>
Total long-term portion			<u><u>\$ 1,650,499</u></u>

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 6 – Revenue Bonds Payable (Continued)

A schedule of the required principal and interest payments on the aforementioned bonds payable follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	94,100	72,343
2021	99,899	67,919
2022	78,200	63,919
2023	81,500	59,364
2024-2028	432,700	259,361
2029-2033	475,600	165,365
2034-2038	451,700	3,763
2039-2044	30,900	-
Total	<u>\$ 1,744,599</u>	<u>\$ 692,034</u>

Principal payments are due on the above aforementioned bonds on October 1<sup>st</sup> of each year with interest being due on April 1<sup>st</sup> and October 1<sup>st</sup>.

The bond ordinance for each series is consistent in that certain restricted accounts are required to be established. A summary of the required accounts and their significant provisions in order of priority follows:

Water and Sewer Interest Sinking Fund

Amounts sufficient to pay the current principal and interest requirements of the outstanding revenue bonds are to be set aside monthly in this account. The monthly payment is to be equal to one-sixth of the next interest payment and one-twelfth of the next principal payment.

Water and Sewer Maintenance and Operation Fund

Amounts sufficient to pay the proper operation and maintenance expenses of the system, including the expenses of carrying sufficient insurance are to be set aside monthly in this account plus a reserve equal to three months' expenses are established and maintained and this account as reflected in the accompanying financial statements is not restricted.

Water and Sewer System Reserve Fund

Amounts sufficient to pay an amount equal to not less than the maximum annual principal and interest requirements of any one year are to be set aside in this account. The City currently has combined the Water and Sewer Interest Sinking Fund account with this account.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 6 – Bonds Payable (Continued)

Water and Sewer Replacement Fund

Monthly deposits of not less than \$1,340 after the transfers required from the three previous funds so long as the bonds remain outstanding which shall be utilized in making good any depreciation in the properties of said System and in financing extensions, additions or improvements to the System. The City further agrees to deposit the proceeds from the sale of any equipment no longer usable or needed, all fees or charges collected from potential customers and any proceeds received from property damage insurance not immediately used to replace the damaged or destroyed property. These funds are to be used for paying the cost of unusual or extraordinary maintenance, repairs, renewals, replacements and the cost of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. However, monies in the fund shall be available for the principal and interest requirements on the bonds if for any reason and whenever sufficient funds are not available in the Sinking Fund or Reserve Fund.

If all transfers have been made in required accounts which are cumulative, the balance in the Revenue Fund, if any, shall within sixty days following the close of the fiscal year be utilized to retire any outstanding obligations against the system or transfer additional funds to the Replacement Fund; provided, however, that no such transfer shall be made to the Replacement Fund unless there shall have been first accumulated in the Operation and Maintenance Fund an amount equal to the cost of operating and maintaining the System during the remainder of the fiscal year and the succeeding fiscal year or pay debt service on any outstanding junior and subordinate obligations of the System.

Pledged Revenues

The City reports revenues pursuant to GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Pledged revenues of the City are related to water system revenues.

The City has pledged future water customer revenues, net of specified operating expenses to repay water system revenue bonds issued at various dates from 1981 through 2004. Total water customer revenues net of specified operating expenses amounted to \$646,165 for the year ended June 30, 2019. Proceeds from the bonds provided financing for various water projects. The bonds are payable solely from water customer net revenues and are payable at various maturity dates from 2017 through 2044. The total principal and interest remaining to be paid on the bonds as of June 30, 2019 is \$2,426,633. Principal and interest paid for the year ended June 30, 2019 was \$166,467.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 7 – Notes Payable

As of June 30, 2019, the City had the following notes payable outstanding:

Description	Interest Rate	Maturity Date	Amount
Pumper Truck Loan	3.000%	March 2024	\$ 103,509
Manhole Project Loan	1.000%	June 2034	512,547
Vehicle Loan	3.000%	June 2021	14,283
Total			630,339
Less: current portion			53,715
Total long-term portion			<u>\$ 576,624</u>

A schedule of the required principal and interest payments on the aforementioned notes payable follows:

Year Ended June 30,	Governmental Activities Notes Payable		Business-type Activities Notes Payable	
	Principal	Interest	Principal	Interest
2020	15,935	3,082	37,780	5,398
2021	16,413	2,620	38,271	4,876
2022	16,905	2,146	31,350	4,430
2023	17,413	1,672	31,663	3,984
2024	17,521	1,295	31,981	3,538
Thereafter	19,322	474	355,785	20,287
Total	<u>\$ 103,509</u>	<u>\$ 11,289</u>	<u>\$ 526,830</u>	<u>\$ 42,513</u>

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 8 – Retirement Plan

*Plan Description*

The City contributes to the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

CERS was created by the Kentucky General Assembly. Benefits are fully vested immediately upon reaching 60 months of service and are established by state statutes. Benefits of CERS members are calculated on the basis of age, final average salary and service credit. CERS also provides survivor, disability and health care coverage. Authority to establish and amend benefits is provided by Kentucky Revised Statutes Section 61.645.

For the fiscal year ended June 30, 2019 the City's covered payroll for hazardous and non-hazardous positions was \$1,291,411. Kentucky Revised Statutes provides authority for employee and employer contributions. Employees and the City have contributed all of the required contributions for the fiscal year ending June 30, 2019.

Contribution rates are as follows:

	<u>Employee</u>	<u>Employer</u>
Non-hazardous	5.0%-6.0%	21.48%
Hazardous	8.0%-9.0%	45.34%

The City's contribution for the fiscal year ended June 30, 2019 amounted to \$420,283, of which \$343,446 was contributed by the City and \$78,837 by the City's employees.

*Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions*

At June 30, 2019, the City reported a liability of \$3,880,115 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the City's proportion was 0.085 percent for hazardous and .030 percent for non-hazardous.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 8 - Retirement Plan (Continued)

For the year ended June 30, 2019, the City recognized pension expense of \$773,184. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 154,849	\$ 3,032
Differences between expected and actual experience	222,612	26,860
Changes of assumptions	397,029	-
Net difference between projected and actual earnings on Plan investments	161,131	206,201
City's contributions subsequent to the measurement date	232,434	-
Total	\$ 1,168,055	\$ 236,093

The \$232,343 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2020	\$ 483,553
2021	246,671
2022	(11,615)
2023	(18,722)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at [www.kyret.ky.gov](http://www.kyret.ky.gov)

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 8 - Retirement Plan (Continued)

*Actuarial Methods and Assumptions*

For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected rate of return was determined by using a building-block method in which best estimates ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 8 - Retirement Plan (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	Long-Term Expected Rate of Return	Target Allocation
U.S. Equity	5.97%	17.50%
Non-U.S. Equity	6.50%	17.50%
Global Bonds	3.00%	4.00%
Credit Fixed	8.50%	24.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Private Equity	6.50%	10.00%
Cash	1.50%	2.00%
	<u>6.09%</u>	<u>100.00%</u>

*Discount Rate*

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

*Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	<u>Discount rate</u>	<u>City's proportionate share of net pension liability</u>
1% decrease	5.25%	\$ 4,872,000
Current discount rate	6.25%	\$ 3,880,000
1% increase	7.25%	\$ 3,054,000

*Payables to the pension plan:* At June 30, 2019, the City reported a payable including insurance contributions of \$27,063 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 9 – Post-Employment Benefits Other than Pensions (OPEB)

At June 30, 2019, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Outflows of Resources	\$ 422,062
Deferred Inflows of Resources	\$ 228,176
Net OPEB Liability:	\$ 1,137,884

*Plan Description*

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

*Benefits provided.* The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

*Contributions*

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2019 was 5.26% of covered payroll. Contributions to the Insurance Fund from the City were \$88,301 for the year ended June 30, 2019. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

*Net OPEB Liability*

For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 9 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%
Healthcare Trend Rate	
Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The mortality table used for active members is PR-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

*Discount Rate*

The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous, and 5.97% for CERS Hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate 3.62%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 9 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	5.97%	17.50%
Non-U.S. Equity	6.50%	17.50%
Global Bonds	3.00%	4.00%
Credit Fixed	8.50%	24.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Private Equity	6.50%	10.00%
Cash	1.50%	2.00%
	<u>6.09%</u>	<u>100.00%</u>

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.85%) or one percentage point higher (6.85%) follows:

	<u>Discount Rate</u>	<u>City's proportionate share of net OPEB liability</u>
1% decrease	4.85%	\$ 1,653,924
Current discount rate	5.85%	\$ 1,137,884
1% increase	6.85%	\$ 813,445

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 9 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower(6.5%) or one percentage point higher (8.5%) than current healthcare cost trend rates follows:

	Healthcare Cost Trend Rate		City's proportionate share of net OPEB liability
1% decrease	6.5%	\$	808,902
Current healthcare rate	7.5%	\$	1,137,884
1% increase	8.5%	\$	1,537,166

*OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB*

At June 30, 2019, the City reported a liability of \$1,137,884 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2018. This method to be reflective of the employers' long-term contribution effort. At June 30, 2018, the City's proportion was 0.030129% for nonhazardous and .084565% for hazardous.

For the year ended June 30, 2019, the City recognized OPEB expense of \$178,389. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 35,669	\$ 1,202
Implicit subsidy	6,229	-
Differences between expected and actual results	-	129,722
Changes of assumptions	291,863	2,885
Net difference between projected and actual earnings on Plan investments	-	94,367
City contributions subsequent to the measurement date	88,301	-
Total	\$ 422,062	\$ 228,176

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 9 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

The \$88,301 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2020	\$47,050
2021	47,050
2022	13,768
2023	(2,001)
2024	(3,278)
Thereafter	(3,031)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 10 – Summary of Fixed Assets

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities:</b>				
Autos and Trucks	\$ 1,061,149	\$ 130,971	-	\$ 1,192,120
Buildings	1,373,498	52,000	52,000	1,373,498
Fixtures and equipment	365,584	20,554	-	386,138
Buildings and land improvements	434,901	-	-	434,901
Land	44,800	-	-	44,800
Construction in progress	35,000	-	-	35,000
Totals at Historical Cost	3,314,932	203,525	52,000	3,466,457
<b>Less Accumulated Depreciation:</b>				
Autos and Trucks	759,200	97,308	-	856,508
Buildings	715,445	29,295	333	744,407
Fixtures and equipment	259,208	18,458	-	277,666
Buildings and land improvements	190,891	29,340	-	220,231
Totals Accumulated Depreciation	1,924,744	174,401	333	2,098,812
<b>Total capital assets, net</b>	<b>\$ 1,390,188</b>	<b>\$ 29,124</b>	<b>\$ 51,667</b>	<b>\$ 1,367,645</b>
<b>Business-Type Activities:</b>				
Autos and trucks	\$ 298,002	\$ 31,495	\$ -	\$ 329,497
Land and improvements	286,406	-	-	286,406
Buildings	1,106,282	-	-	1,106,282
Fixtures and equipment	730,091	4,375	-	734,466
Water and sewer systems	16,468,778	123,910	-	16,592,688
Totals at Historical Cost	18,889,559	159,780	-	19,049,339
<b>Less Accumulated depreciation:</b>				
Autos and trucks	\$ 254,526	\$ 13,727	\$ -	\$ 268,253
Land and improvements	44,511	5,936	-	50,447
Buildings	405,459	36,876	-	442,335
Fixtures and equipment	533,581	40,169	-	573,750
Water and sewer systems	8,256,778	392,168	-	8,648,946
Total accumulated depreciation	9,494,855	488,876	-	9,983,731
<b>Total capital assets, net</b>	<b>\$ 9,394,704</b>	<b>\$ (329,096)</b>	<b>\$ -</b>	<b>\$ 9,065,608</b>

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 11 – Property Tax Calendar

Property taxes are a significant portion of the General Fund revenues. The property tax calendar is as follows:

Levy Date	January 1
Collection Date	October 1
Due Date	November 30, 2% discount
Lien Date	January 1 of year following Levy Date

Note 12 – Interfund Receivables and Payables and Transfers

Interfund Receivables and Payables as of June 30, 2019 are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 103,503	\$ -
Water and Sewer Fund	-	87,912
Senior Citizens Fund	-	15,591
	\$ 103,503	\$ 103,503

Note 13 – Summary of Long-term Debt

Long-term debt activity for the fiscal year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Notes Payable	\$ 132,674	\$ -	\$ 29,165	\$ 103,509	\$ 15,925
Governmental Activities:					
Long-term Debt	\$ 132,674	\$ -	\$ 29,165	\$ 103,509	\$ 15,925
Business-type Activities:					
Revenue Bonds	\$ 1,834,499	\$ -	\$ 89,900	\$ 1,744,599	\$ 94,100
Notes Payable	564,097	-	37,267	526,830	37,780
Business-type Activities:					
Long-term Debt	\$ 2,398,596	\$ -	\$ 127,167	\$ 2,271,429	\$ 131,880

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 14 – Insurance and Risk Management

The City is exposed to various forms of loss associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies which are retrospectively rated including workers' compensation insurance. Premiums for these policies are based upon the City's experience to date.

Note 15 – Fund Balance and Net Position

The City follows the provisions of GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form, such as inventory or prepaids, or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by the City Council ordinance.

Assigned – Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget or ordinance is passed by the City Council.

Unassigned – All amounts not included in other spendable classifications.

The classifications of the fund balances are included in the Governmental Funds Balance Sheet on page 10. The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**General Fund**

The General Fund has unassigned fund balance of \$1,654,241 as of June 30, 2019.

**Other Major Funds**

The Municipal Road Aid Fund has restricted funds of \$33,074 that are set aside for City road repairs. The Special Revenue Fund has restricted funds of \$24,551 that are obligated by state statute to be spent only for law enforcement narcotics operations.

**Net Position**

Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2019

Note 16 – Related Party Transactions

During the year ending June 30, 2019, the City had purchase transactions with various related party entities for equipment totaling to \$6,859, repairs totaling to \$6,717 and supplies for \$978.

Note 17 – Contingencies

The City has received financial assistance from federal, state and local governmental agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and the Single Audit Act, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds, however, such disallowed claims, if any, are not expected to have a materially adverse effect on the City's financial position at June 30, 2019.

The City is involved in various claims and legal matters relating to its operations which have all been tended to, and are either being adjusted by the City's liability carrier, or are being defended by attorneys retained by the City's liability carrier. The status of these matters is uncertain at this time. Any potential loss is also uncertain.

Note 18 – Subsequent Events

Management has evaluated subsequent events through February 21, 2020, the date which the financial statements were available to be issued.

Note 19 – Recently Issued Accounting Standards

GASB Statement No. 84—In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019–20 fiscal year. The City has not determined the effect of this pronouncement.

GASB Statement No. 87—In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or the 2020-21 fiscal year. The City has not determined the effect of this pronouncement.

City of Russell Springs, Kentucky  
Schedule of the City's Proportionate Share of the Net Pension Liability  
County Employees' Retirement System  
Last Five Fiscal Years

	June 30, 2015		June 30, 2016		June 30, 2017		June 30, 2018		June 30, 2019	
	Hazardous	Non-Hazardous								
City's proportion of the net pension liability	0.061450%	0.028644%	0.066330%	0.029001%	0.076253%	0.028336%	0.077978%	0.029369%	0.084565%	0.030129%
City's proportionate share of the net pension liability	\$ 738,402	\$ 928,353	\$ 1,018,236	\$ 1,246,914	\$ 1,308,471	\$ 1,395,161	\$ 1,744,585	\$ 1,718,999	\$ 2,045,168	\$ 1,834,948
City's covered-employee payroll	\$ 353,949	\$ 634,516	\$ 394,788	\$ 678,576	\$ 428,358	\$ 714,607	\$ 481,689	\$ 746,228	\$ 476,625	\$ 814,786
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	208.62%	146.31%	257.92%	183.75%	305.46%	195.23%	362.18%	230.36%	429.09%	225.21%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	66.80%	57.52%	59.97%	53.95%	55.50%	49.80%	53.50%	49.26%	53.54%

City of Russell Springs, Kentucky  
Schedule of the City's Contributions  
County Employees' Retirement System  
Last Five Fiscal Years

	Hazardous					Non-Hazardous				
	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019
Contractually required contribution	\$ 73,374	\$ 79,984	\$ 92,997	\$ 95,095	\$ 118,489	\$ 81,091	\$ 84,347	\$ 99,688	\$ 103,475	\$ 132,158
Contributions in relation to the contractually required contribution	(73,374)	(79,984)	(92,997)	(95,095)	(118,489)	(81,091)	(84,347)	(99,688)	(103,475)	(132,158)
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered-employee payroll	\$ 353,949	\$ 394,788	\$ 428,358	\$ 428,358	\$ 476,625	\$ 634,516	\$ 678,576	\$ 714,607	\$ 714,607	\$ 814,786
Contributions as a percentage of covered-employee payroll	20.73%	20.26%	21.71%	22.20%	24.86%	12.78%	12.43%	13.95%	14.48%	16.22%

City of Russell Springs, Kentucky  
Schedule of the City's OPEB Contributions  
County Employees' Retirement System  
Last Two Fiscal Years

	2018		2019	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
Contractually required contribution	\$ 45,038	\$ 35,073	\$ 49,903	\$ 42,858
Contributions in relation to the contractually required contribution	<u>(45,038)</u>	<u>(35,073)</u>	<u>(49,903)</u>	<u>(42,858)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 481,689	\$ 746,228	\$ 476,625	\$ 814,786
Contributions as a percentage of covered-employee payroll	9.35%	4.70%	10.47%	5.26%

City of Russell Springs, Kentucky  
Schedule of Changes in the City's OPEB Liability  
County Employees' Retirement System  
Last Two Fiscal Years  
(\$ in thousands)

Change in the Net OPEB Liability	June 30, 2018		June 30, 2019	
	Hazardous	Non-Hazardous	Hazardous	Non - Hazardous
Total OPEB liability				
Service Cost	\$ 16	\$ 25	\$ 29	\$ 37
Interest	88	71	100	73
Benefit Changes	-	-	-	1
Difference between actual and expected experience	(2)	(2)	(85)	(72)
Assumption Changes	305	153	(2)	(1)
Benefit Payments	(50)	(41)	(60)	(47)
Net Change on Total OPEB Liability	358	206	(18)	(9)
Total OPEB Liability - Beginning	1,214	1,035	1,702	1,272
Total OPEB Liability - Ending	<u>\$ 1,572</u>	<u>\$ 1,240</u>	<u>\$ 1,684</u>	<u>\$ 1,263</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 35	\$ 39	\$ 44	\$ 44
Contributions - Member	1	3	2	3
Benefit Payments	(50)	(41)	(60)	(47)
Net Investment Income	112	78	93	61
Administrative Expense	(0)	(0)	-	-
Other	-	-	-	-
Net Change in Plan Fiduciary Net Position	98	78	79	61
Plan Fiduciary Net Position - Beginning	829	571.55	1,005	667
Plan Fiduciary Net Position - Ending	<u>\$ 927</u>	<u>\$ 650</u>	<u>\$ 1,084</u>	<u>\$ 728</u>
Net OPEB Liability - Ending	645	590	600	535
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	59.0%	52.4%	64.4%	57.6%
Covered Payroll	\$ 482	\$ 746	\$ 476	\$ 814
Net OPEB Liability as a Percentage of Covered Payroll	133.8%	79.1%	126.1%	65.7%

City of Russell Springs, Kentucky  
Schedule of Water and Sewer Activities  
For the Year Ended June 30, 2019

	<u>Water Services</u>	<u>Sewer Services</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 2,467,133	\$ 942,485	\$ 3,409,618
Total Operating Revenues	<u>2,467,133</u>	<u>942,485</u>	<u>3,409,618</u>
Operating Expenses			
Salaries	293,517	82,453	375,970
Payroll taxes	21,412	5,999	27,411
Motor fuels	29,276	12,293	41,569
Depreciation and amortization	247,842	202,780	450,622
Maintenance	38,617	20,940	59,557
Utilities	40,825	61,990	102,815
Chemicals	4,311	-	4,311
Employee benefits	237,914	40,288	278,202
Insurance	62,456	-	62,456
Supplies	151,052	100,977	252,029
Office supplies	2,955	-	2,955
Professional fees	15,491	13,118	28,609
Advertising and printing	282	-	282
Lab analysis	9,037	-	9,037
Water purchases	905,688	-	905,688
Sanitation - Sewer and Garbage	-	889,071	889,071
Dues and subscriptions	692	-	692
Uniforms	10,688	1,646	12,334
Miscellaneous	5,810	7,209	13,019
Sales tax	45,400	-	45,400
Utility tax	30,578	30,579	61,157
Communications and postage	27,123	-	27,123
Total Operating Expenses	<u>2,180,966</u>	<u>1,469,343</u>	<u>3,650,309</u>
Operating Income (Loss)	<u>\$ 286,167</u>	<u>\$ (526,858)</u>	<u>\$ (240,691)</u>

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance  
And Other Matters based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Mayor and City Council  
City of Russell Springs, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund the City of Russell Springs, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Russell Springs, Kentucky's basic financial statements and have issued our report thereon dated February 21, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Russell Springs, Kentucky's internal control over financial reporting (Internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Russell Springs, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Russell Springs, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule or findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2019-1 and 2019-2 to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as 2019-3 and 2019-4 to be a significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Russell Springs, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **City of Russell Springs, Kentucky Responses to Findings**

The City of Russell Springs responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Russell Springs responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Baldwin CPAs, PLLC***

Baldwin CPAs, PLLC

February 21, 2020

City of Russell Springs, Kentucky  
Schedule of Findings and Responses (Continued)  
June 30, 2019

A. Findings – Financial Statement Audit

2019-1 Preparation of GAAP Financials Statements

**Criteria:**

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

**Condition:**

During the audit procedures performed, instances of this objective not being completely achieved were noted.

**Cause:**

The City's internal financial statements that are prepared by Management are not required to be prepared in accordance generally accepted accounting principles (GAAP). However, the City's financial statements that are submitted for external audit are required to be prepared in accordance with GAAP. Currently the City has limited resources to review their financial statements and related note disclosures in relation to GAAP to provide reasonable assurance that reliable financial reporting will be achieved. We have previously reported this deficiency to you in our audits performed in prior years.

**Effect:**

The City was unable to prepare or review their financial statements and related note disclosures in accordance with Generally Accepted Accounting Principles. Without proper internal resources and procedures to ensure that the financial statements are prepared in accordance with general accepted accounting principles, the risk of material misstatement is increased.

Management engaged the auditor to prepare draft financials statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to issuance.

In order to eliminate the control deficiency, Management must be intentional is its plan to prepare financial statements that are in accordance with GAAP. The following includes suggestions to strengthen internal controls over financial reporting:

- Knowledgeable personnel monitor changes in authoritative guidance and make the appropriate changes to the entity's accounting policies and procedures on a timely basis. In addition, obtain annual training and updates on governmental accounting and financial reporting issues.
- An independent review of significant judgments and estimates included in the financial records is performed on a periodic basis by knowledgeable personnel. An independent review of the financial statements and all related disclosures is performed by management and/or other suitably qualified personnel for completeness, consistency, and compliance with GAAP and the entity's accounting and disclosure policies. This independent review can include discussion and consulting with the external auditor.
- Up-to-date disclosure checklists are used to ensure that all relevant financial information is disclosed in the appropriate accounting period in accordance with GAAP and the entity's accounting and disclosure policies.
- For each financial statement disclosure, a supporting analysis is prepared and documented in accordance with relevant GAAP and the entity's accounting and disclosure policies.

City of Russell Springs, Kentucky  
Schedule of Findings and Responses (Continued)  
June 30, 2019

2019-1 (continued)

- All financial statements and related disclosures are approved by management prior to the release of the reports to third parties.

**Views of responsible officials and planned corrective actions:**

We are aware that we have limited resources which prevent the preparation of financial statements and related note disclosures in accordance with Generally Accepted Accounting Principles. It is due to these limited resources that we cannot have additional personnel or seek the assistance of outside accounting firms to assist with this process.

2019-2 Lack of Proper Segregation of Duties – Cash Disbursements and General Ledger

**Criteria:**

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an City's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Local governments should implement procedures to ensure this objective is achieved.

**Condition:**

During the audit procedures performed, instances of this objective not being completely achieved were noted.

**Cause:**

During our audit and understanding of the City's internal controls, we noted that certain accounting functions are not properly segregated to provide optimal internal control. We have previously reported this deficiency to you in our audits performed in prior years. Although management has taken recent steps to delegate certain accounting responsibilities and functions in an effort to improve internal controls, certain functions still remain incompatible.

Currently, the City Clerk and Deputy Clerk are involved in nearly all aspects of the financial reporting functions of the City. These functions include taking the cash deposits to the bank, recording transactions to the general ledger, reconciling bank statements, transferring funds between accounts, making journal entries, processing vendor invoices to be paid, preparing checks in payment of vendor invoices, signing checks, and making changes to personnel files.

**Effect:**

Segregation of duties is critical to effective internal control as it reduces the risk of both erroneous and inappropriate actions.

In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees. Segregation of duties is a deterrent to fraud because it requires collusion with another person to perpetrate a fraudulent act.

Adequate segregation of duties means that at least two individuals are involved with every fiscal transaction to ensure it is accurate and proper. Ideally, there should be at least two individuals involved with every fiscal transaction before it occurs to ensure adequate review for accuracy and to reduce the risk of impropriety. Segregation of duties is considered as being a preventive control because it prevents an event from occurring, rather than discovering an error after-the-act.

City of Russell Springs, Kentucky  
Schedule of Findings and Responses (Continued)  
June 30, 2019

2019-2 (continued)

If an Organization doesn't have adequate staff size to effectively segregate duties for all accounting functions, then compensating controls should be incorporated to provide reasonable assurance that fiscal transactions are being monitored for accuracy and propriety. The compensating controls do not eliminate the deficiency but may mitigate the effects of the control deficiency.

Compensating controls are less desirable than the segregation of duties internal control because compensating controls generally occur after the transaction is complete. Also, it takes more resources to investigate and correct errors and to recover losses than it does to prevent the errors in the first place. However, in some circumstances, organizational units do not have the staff resources to establish adequate segregation of duties. In these instances, it is important for management to implement internal controls that compensate for this increased risk. The following is a list of compensating controls that can be used by the City.

*Compensating Control A: Review report of Details of Transactions*

At a minimum, fiscal managers having fiscal staff who can perform all aspects of key accounting functions should be doing a monthly review of their organizational unit's revenue and expense statement detail and balance sheet statement detail to identify, investigate, and correct improper charges. An adequate review will take into consideration the transaction date, vendor, description, dollar amount and account. Compensating control review must be physically documented by the reviewer and the reviewer should be independent of the financial reporting process.

*Compensating Control B: Pull a Sample of Transactions*

The reviewer can periodically pull and review the supporting documents for a transaction sample selected from transactions initiated by the person with incompatible access.

*Compensating Control C: Review Journal Entries*

The reviewer should review all transactions on this report for appropriateness and should investigate and remediate any concerns. An adequate review will take into consideration the transaction date, description, dollar amount, and account. The review must incorporate supporting documentation for all material journal entries.

*Compensating Control D: Review Vender Report*

The reviewer should review all paid venders on the vender report for appropriateness and should investigate and remediate any concerns. An adequate review will take into consideration the transaction date, description, dollar amount, and account.

**Views of responsible officials and planned corrective actions:**

The City has limited resources that prevent being able to further segregate duties, but will implement stronger internal controls to help mitigate any risk associated with the process.

City of Russell Springs, Kentucky  
Schedule of Findings and Responses (Continued)  
June 30, 2019

2019-3 Segregation of Duties – Cash receipts and Billing

**Criteria:**

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of a City's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Local governments should implement procedures to ensure this objective is achieved.

**Condition:**

During the audit procedures performed, instances of this objective not being completely achieved were noted.

**Cause:**

There is not appropriate segregation of duties or other controls over the deposits of customer water and sewer usage payments. Those individuals collecting customer payments are also charged with crediting the customer accounts, counting cash drawers at day's end, preparing the deposit and making the deposit at the bank.

**Effect:**

This condition could provide an opportunity for misappropriation of funds and concealment of such activity.

**Views of responsible officials and planned corrective actions:**

The City has limited resources that prevent being able to further segregate duties, but will implement stronger internal controls to help mitigate any risk associated with the process.

2019-4 Improve Documentation to Support Alcohol Beverage Control ("ABC") Expenditures

**Criteria:**

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of a City's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Local governments should implement procedures to ensure this objective is achieved.

**Condition:**

During the audit procedures performed, instances of this objective not being completely achieved were noted.

**Cause:**

Based on our review of expenditures from ABC fees, we found instances in which the City could improve the documentation to adequately support the expenditures were related to ABC activity. According to KRS 243.075, the City may use the 6% alcohol regulatory license fee as permitted by law, including but not limited to, any cost of additional policing, regulatory or administrative expenses related to the sale of alcoholic beverages in the City.

City of Russell Springs, Kentucky  
Schedule of Findings and Responses (Continued)  
June 30, 2019

2019-4 (continued)

All of the expenditures that we reviewed, we found proper documentation to support that a transaction did occur including the date, the amount and type of transaction such as a copy of a receipt or purchase invoice. However, some of the expenditures that we reviewed lacked documentation to support the expenditure was related to policing, regulatory or administrative expenses related to the sale of alcoholic beverages in the City. For example, we found expenditures related to vehicle repair on a 2008 Mercury Mountaineer. The City did not maintain documentation to support how this vehicle was used in ABC related activities. As this vehicle was also used by the City for non-ABC related activities, a mileage-use log describing dates used, miles driven and purpose would have provided adequate documentation to support the expenditure was related to ABC activities. According to the KSR 243.075, the alcohol regulatory fee should not be used for activities not related to policing, regulatory or administrative expenses related to the sale of alcoholic beverages in the City. Without this level of detail, it is difficult for the City to support that these expenditures are in compliance with the regulations.

In addition, of the expenditures we reviewed we noted the following:

- Two expenditures totaling \$67,976 for the purchase of two new Chevy trucks. Alcohol regulatory fees paid for 100% of the cost of the trucks. The City did not maintain a mileage-log to support that the trucks were used 100% of the time for ABC activities.
- One expenditure for \$34,414 for the reimbursement of 100% of the ABC Administrator's salary for two quarters of the year. The City did not maintain timesheets for the ABC Administrator to support that 100% of that time was related to ABC activities.
- One expenditure for \$5,000 for the demolition of a building. In FY 2018, the City acquired property using 100% of ABC funds to be used in the future for ABC facilities. The property is currently inactive. The City did not maintain documentation to support that this property is for ABC activities.

**Effect:**

This condition could result in non-compliance with KRS 243.075. We recommend the City maintain documentation to support how expenditures are related to ABC activities. Activities that are not ABC related should not be 100% paid for with ABC funds.

We further recommend that the City develop written procurement policies that contain the required procedures and documents for the use of ABC funds. The policies should require detailed documentation which supports how the expenditure is being used for ABC activities and how non-ABC activities are accounted for. The written procedures should be consistent with KRS 243.075 regulations. In addition, we recommend the policy address how the City will account for long term assets, such as vehicles and real property, that are acquired with ABC funds but that may not be used for ABC activities in the future. It should also address how the City will account for employees who perform ABC related activities and non-ABC activities. We also recommend the City consult with the City's attorney, the Kentucky League of Cities as well as the Kentucky Department of Alcohol Beverage Control when developing these written policies.

**Views of responsible officials and planned corrective actions:**

The city will strengthen and improve the documentation mechanisms to support ABC expenditures for FY 20 by consulting with our City Attorney, David Smith, the Kentucky League of Cities lead ABC attorney, Chris Johnson, as well as the Kentucky Department of Alcohol Beverage Control.